September 1990 Monthly Survey October 12, 1990

Surveys of Consumers

Richard T. Curtin, *Director*

DECLINE IN CONSUMER CONFIDENCE CONTINUES: RECESSION WIDELY EXPECTED BY CONSUMERS

Recessionary Trend In Sentiment Index

Rather than a rebound from the sharp plunge recorded in August, consumer confidence slipped further in the September 1990 survey. The Index of Consumer Sentiment fell to 72.8 in September from 76.4 in August, leaving it more than 20 Index-points below the September 1989 reading of 95.8.

Although the September 1990 decline was relatively small, it marked the fifth consecutive monthly decline, and does signal the establishment of a recessionary trend. As a result, cumulative cutbacks in consumer spending can be expected in the coming months.

The most distinctive aspect of recent trends is that consumers' expectations for the general economy have deteriorated to a much greater extent than consumers' expectations for changes in their own personal financial situation. In past downturns, both measures have generally registered coinciding declines. (Evaluations of buying conditions have usually declined later than expectations for the general economy and personal finances, as is in the current situation.)

The major reason for the difference involves trends in inflation. Past expansions were associated with steady upward pressures on prices, resulting in escalating inflation rates as the expansion lengthened. Moreover, as inflation rates rose, consumers came to expect even higher rates in the future. As a result, personal financial evaluations declined considerably in the latter stages of past expansions.

Up until the recent increases in oil prices, escalating inflation rates have not been a significant concern of consumers, and this has kept their assessments of their own financial situation at very favorable levels. Rising gasoline prices have begun to erode those favorable assessments, and are likely to continue to do so in the coming months.

The more moderate declines in personal finances are likely to translate into more moderate spending cutbacks than would have been otherwise expected given the same overall decline in sentiment. Nonetheless, as personal finances are squeezed by continued increases in gas prices (and the associated increase in other products and services), spending cutbacks are likely to escalate.

Widespread Weakness Recorded In September

Among families with incomes of $40,000 or more, the Index fell to 76.7 in September, down from 78.9 one month earlier and 103.0 one year earlier.

Sentiment among residents of all regions, except the West, declined in September: among residents of the Northeast, the Index fell to 65.0, from 67.2 in August; among residents of the North Central it fell to 73.9, from 78.0 in August; and among residents

of the South it fell to 70.2, from 78.7 in August. Sentiment among residents of the Western region improved to 86.4 in September, from 80.1 in August, mainly due to an improved long term outlook for the economy.

Leading Indicator Component Posts Further Loss

The Index of Consumer Expectations fell to 58.8 in September 1990, down from 62.9 one month earlier and 88.6 one year earlier. The September decline was mainly due to the continued erosion in prospect for the national economy during the year ahead.

The Index of Current Economic Conditions fell to 94.7 in September, from 97.5 one month earlier and 107.1 one year earlier. Less favorable evaluations of current buying conditions led the September decline.

Very Pessimistic Outlook for Economy

Consumer assessments of the state of the national economy were very negative in the September 1990 survey. Nearly two-thirds of all households thought that conditions in the economy were now worse than a year ago, and nearly two-thirds expected bad times financially in the economy as a whole during the year ahead.

Good times financially in the economy as a whole during the year ahead were expected by just 18 percent of all families in September 1990, down from 25 percent one month earlier and 55 percent one year earlier. The September reading of 18 percent is only marginally above the all-time record low of 11 percent recorded in 1980.

The longer term outlook for the economy was not as bleak as the near term outlook. In the September 1990 survey, 25 percent of all households expected good times financially in the economy as a whole during the next five years, unchanged from the month-earlier reading, but well below the 41 percent recorded one year earlier. Bad times financially over the longer term were expected by 57 percent in September, up from 40 percent one year earlier.

Heightened Concerns With Inflation Unemployment, and Interest Rates

In the September 1990 survey, inflation, unemployment and interest rate expectations all remained near their unfavorable August levels. These heightened concerns underpin the very negative outlook for the national economy.

Inflation. The annual rate of inflation was expected to average 5.9% during the year ahead in the September survey, just below the 6.1% recorded in August, but substantially above the 4.4% recorded in September 1989. The August-September expected inflation rates were the highest recorded since 1982.

Unemployment. The national unemployment rate was expected to increase by 44 percent of all households in September 1990, slightly below the 46 percent recorded in August, but well above the 26 percent recorded last September. Just 9 percent of all households expected declines in the unemployment rate during the year ahead in the September survey. Overall, concerns about rising unemployment are now higher than anytime since the last recession in the early 1980s.

Interest Rates. In the September 1990 survey, interest rates were expected to increase by 63 percent of all households, up from 59 percent one month earlier and 50 percent one year earlier. Declines in interest rates were expected by 14 percent of all households in September, down from 19 percent in August.

Personal Finances Post Moderate Decline

In comparison with the sharp declines recorded in prospects for the national economy, consumers' evaluations of their personal financial situation have declined to a much more modest extent. Overall,

however, these evaluations were less favorable in the September 1990 survey than at any other time during the current expansion.

Among all households in the September 1990 survey, 36 percent reported that their financial situation had improved during the past year, unchanged from one month earlier, but below the 42 percent recorded one year earlier.

The proportion of families that expected their personal financial situation to improve during the year ahead fell to 29 percent in September, from 32 percent one month earlier and 38 percent one year earlier. A worsening financial situation was expected by 17 percent of all households in September, up from 13 percent one month earlier and 9 percent one year earlier. The recent decline was due to concerns about rising prices and lagging incomes.

Buying Attitudes Edge Downward

Additional declines in attitudes toward buying conditions for home and large household durables were recorded in September, while vehicle buying conditions were slightly higher that the depressed August reading. Overall, buying attitudes for each market studied were below the year earlier levels.

Household Durables. Favorable attitudes toward buying conditions for furniture, appliances, home electronics, and other large household durables fell to 66 percent in September, from 69 percent one month earlier and 75 percent one year earlier. Fewer households mentioned the availability of discounts in the September 1990 survey than one year earlier (26 percent, down from 34 percent), and more households registered complaints about high prices (14 percent, up from 7 percent).

Homes. Favorable attitudes toward buying conditions for homes were held by 58 percent of all families in the September 1990 survey, down from 59 percent one month earlier and 70 percent one year earlier. The decline in favorable home buying attitudes was entirely due to rising mortgage interest rates. The proportion of families that mentioned the availability of low mortgage rates fell to 15 percent in September, from 21 percent one month earlier and 36 percent one year earlier.

Rising mortgage rates have soured home buying attitudes despite the widespread perception that home prices have declined. In the September 1990 survey, 30 percent of all families mentioned declines in home prices, a new all-time record level replacing the 29 percent recorded several times earlier in 1990.

Vehicles. Favorable attitudes toward vehicle buying conditions were held by 59 percent of all households in the September 1990 survey, which was between the 57 percent recorded one month earlier and the 61 percent recorded one year earlier. The availability of price discounts was mentioned by 34 percent of all households in September 1990, just ahead of the 32 percent recorded both one month and one year earlier.

Rising gasoline prices continued to exert a negative influence on consumers' evaluations of vehicle buying conditions, mentioned by 10 percent of all families in the September 1990 survey, up from 5 percent in August.

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The September 1990 survey included 502 completed interviews conducted between September 4 and September 30, 1990.